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BENEFITS

Report Shows Trending Changes in Sales Taxes and Policies

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Change is afoot as we come to the end of 2021. As COVID-19 relaxes its stranglehold on the United States, states are considering how tax policies can be adjusted to help mitigate the worst effects of future crises. Across the Atlantic, the European Union is preparing to launch a sweeping ecommerce tax package to reduce tax evasion and level the playing field for local businesses.

States reopen and reconsider COVID tax relief policies

The effectiveness of COVID-19 vaccines is allowing even the most cautious states to reopen: [California](#) and [New York](#) recently lifted all restrictions for vaccinated individuals, and [Washington](#) state has promised to do the same by June 30, 2021. On the other end of the spectrum, [Oklahoma](#) and [Texas](#) have banned mask mandates. However, as of this writing, the Covid Delta strain is causing some states to revisit restrictions and mask policies.

As businesses put an end to work-from-home orders, states are rescinding certain COVID-19 tax relief measures. For example, [Massachusetts](#) maintains nonresidents who worked in the Bay State prior to the start of the COVID-19 pandemic owe Massachusetts income tax on wages earned while working from home in another state. And last week, [Pennsylvania](#) announced temporary tax relief related to telework would end on June 30, 2021.

States examine benefits of broadening the tax base

With business largely back to normal and Americans eagerly hitting the road, lawmakers and tax officials throughout the country are considering how different tax strategies could help minimize the negative effects of any future events.

For example, [Hawaii](#) is looking into policies that could encourage businesses to relocate to the Aloha State, which is so reliant on tourism it suffered greatly during the COVID-19 lockdown. Vermont recently voted to extend a program that [pays people to move to Vermont](#), an option open to more people now that many employers see the long-term benefits of a remote workforce.

Broadening the sales tax base is another option, in Vermont and in other states. For example, the [Vermont Tax Structure Commission](#) has determined that “the broader the [sales tax] base, the less likely a particular crisis is to have a disproportionate negative effect.” Of course, this can be a hard sell; [Louisiana](#) and [Nebraska](#) are among the states that unsuccessfully tried to expand sales tax to services this spring.

Nonetheless, similar efforts in other states may prove more successful as economic conditions improve. Indeed [Maryland](#) was able to enact the nation's first tax on digital advertising services, and several other states are trying to do the same. This is a contentious issue in the U.S. — Maryland's new tax has already been [challenged](#) — but globally the trend is moving toward taxation. [Digital services are already subject to tax in many other countries](#), including France and India.

Taxing other digital products and services, especially streamed content, is under consideration in Kansas, Wyoming, and several other states. Meanwhile, Colorado, Georgia, and Maryland are among the states that recently opted to apply sales and use tax to certain digital products. This should come as no surprise. When people couldn't go to concerts, movies, shows, or brick-and-mortar stores — or even visit with family and friends — consumption of digital goods and streamed content surged. States that taxed those revenue sources fared better than those that didn't.

The same holds true for the states that had economic nexus and marketplace facilitator laws in place.

Final holdouts pass remote sales tax bills

Ecommerce has comprised an ever-growing portion of retail sales since its inception two-and-a-half decades ago, but its use exploded during the pandemic. Though sales through all other channels declined when the coronavirus confined us to our homes in 2020, [ecommerce grew by 44%](#). The few states unable to tax online sales by companies with no physical presence in the state were at a clear disadvantage.

The economic impact of the pandemic on sales and use tax collections likely contributed to the relative ease with which Florida passed an economic nexus and marketplace facilitator law this year. The Sunshine State will start taxing remote sales and requiring marketplace facilitators to collect and remit half on behalf of third-party sellers on July 1, 2021. If Missouri Governor Mike Parson decides to sign Senate Bill 153 into law, the Show-Me State will do the same starting 2023.

Florida and Missouri aside, states have been remarkably quick to respond to the Supreme Court of the United States decision on *South Dakota v. Wayfair, Inc.* Just [three years after the pivotal sales tax ruling](#), nearly every state in the Union is taxing remote online sales.

Europe levels the playing field

American states aren't alone in amending their laws to account for ecommerce and marketplace sales. To help level the playing field between local brick-and-mortar and remote online businesses, the [United Kingdom overhauled its value-added tax \(VAT\) rules for ecommerce](#): Online retailers selling to consumers in the U.K. have new VAT calculation and collection obligations as of January 1, 2021, and online marketplaces are responsible for the VAT on certain third-party sales. Similar reforms take effect throughout the EU on July 1, 2021, as a result of the [2021 EU ecommerce VAT package](#).

These changes should also help reduce tax evasion, which is rampant in Europe.

U.S. to crack down on tax evasion

The U.S. has a different plan to crack down on tax evasion. [President Joe Biden](#) wants to give the Internal Revenue Service an [extra \\$80 billion](#) to [hire additional employees](#) and get serious about rooting out tax scofflaws. His [plan](#) also calls to improve technology that can help the IRS identify tax evasion.

Whether new zeal for tax audits trickles down to the state level remains to be seen. It could depend in part on what the IRS finds if it undertakes this plan.

You can read the full report here: [2021 sales tax changes report: midyear update](#).

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